

Message Text

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FM AMEMBASSY MOSCOW

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INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

USDOC WASHDC

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USDOC DOR HEWT/TDAD

EO 11652: GDS

TAGS: ETRD EEWT EFIN UR US XT

SUBJECT: LATEST NEGOTIATIONS INDICATE CONTINUED TIGHT CONTROLS ON
FOREIGN EXCHANGE EXPENDITURES

1. SUMMARY. REPORTS FROM U.S. COMPANIES INDICATE THAT SOVIETS ARE
MAINTAINING TIGHT CONTROL OVER HARD-CURRENCY EXPENDITURES.
COMMERCIAL OFFICE HAS ALSO OBTAINED RATHER SURPRISING REPORT THAT
SOVIETS ARE IN SOME CASES EMPLOYING VARIOUS RUSES TO AVOID
MEETING PAYMENT OBLIGATIONS. IN ADDITION, US FIRM WHICH SIGNED
CONTRACT IN 1975 WHICH PROVIDED FOR LETTER OF CREDIT FINANCING WITHOUT

CREDIT PROVISIONS HAS NOW BEEN ASKED TO ARRANGE FOR ONE-YEAR
DEFERRED PAYMENT. TAKEN TOGETHER, THESE REPORTS IMPLY REAL
CONCERN OVER 1975 TRADE DEFICIT AND 1976 HARDCURRENCY TRADE
BALANCE. END SUMMARY

2. BUSINESS ACTIVITY IN MOSCOW DURING FIRST QUARTER OF 1976 WAS AT
LOW LEVEL. TO SOME EXTENT, THIS REFLECTED SOVIET PREOCCUPATION
WITH 25TH PARTY CONGRESS. HOWEVER, IN TERMS OF DAY-TO-DAY FOREIGN
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TRADE ACTIVITIES, MAJOR CAUSE OF SLOWDOWN APPEARS TO HAVE BEEN

UNCERTAINTY ON PART OF FOREIGN TRADE ORGANIZATIONS REGARDING 1976 HARD-CURRENCY ALLOCATIONS. COMMERCIAL OFFICE HAD PREVIOUSLY REPORTED (75 MOSCOW 15905 AND 75 MOSCOW 18446) CASES IN WHICH FOREIGN TRADE ORGANIZATIONS HAD CLAIMED THAT THERE WOULD BE NO RPT NO FUNDS AVAILABLE FOR PAYMENTS DURING 1976. ALTHOUGH SOME CONTRACTS INVOLVING CASH PAYMENTS DURING 1976 HAVE BEEN SIGNED SUBSEQUENTLY, THE "NO CASH AVAILABLE" LINE HAS PREDOMINATED. DURING APRIL 8 MEETING WITH COMMERCIAL ATTACHE, REPRESENTATIVES OF CROSS INC.'S FRG SUBSIDIARY ADVISED THAT THEY HAD JUST SIGNED 13 MILLION DM CONTRACT FOR EQUIPMENT FOR VAZ PLANT (TOGLIATTI), WHERE IT WILL BE USED FOR PRODUCTION OF "NIVA" FOUR-WHEEL-DRIVE VEHICLE. IN THIS CASE, AVTOPROMIMPORT CLAIMED THAT NO PAYMENTS COULD BE MADE IN 1976 AND INSISTED UPON FIVE-YEAR FINANCING. CROSS AGREED TO ACCEPT FIVE-YEAR, 7 PERCENT PROMISSORY NOTES COVERING 80 PERCENT OF CONTRACT. SOVIETS WILL PAY 5 PERCENT OF TOTAL VALUE OF CONTRACT IN JANUARY 1977 AND 10 PERCENT WHEN MACHINERY IS DELIVERED IN

JUNE 1977, WITH REMAINING 5 PERCENT HELD OUT PENDING FULFILLMENT OF PERFORMANCE GUARANTEES. CROSS REPRESENTATIVES ADVISED COMMATT THAT THEY HAD DEMONSTRATED TO SOVIETS THAT THIS FORM OF FINANCING COST CROSS THE EQUIVALENT OF 8 PERCENT OF THE VALUE OF THE CONTRACT, AND SOVIETS AGREED TO INCREASE FACE VALUE OF CONTRACT BY 4.5 PERCENT. BOTH SIDES AGREED THAT REMAINING 3.5 PERCENT COULD BE REGARDED AS DISCOUNT BY SELLER.

3. DISCUSSIONS WITH OTHER COMPANY REPRESENTATIVES AND MOSCOW-BASED WESTERN BANKERS SUGGEST THAT CROSS CONTRACT SEEMS TO REFLECT STANDARD SOVIET APPROACH. IT IS OF INTEREST THAT SOVIETS HAVE NOW AGREED TO PAY 7 PERCENT INTEREST RATE ON PROMISSORY NOTES, WHICH REDUCES AMOUNT OF INTEREST RATE WHICH MUST BE BURIED IN PRICE. CROSS REPRESENTATIVES ALSO ADVISED THAT THEY UNDERSTOOD THAT ANOTHER FRG MACHINE TOOL COMPANY WAS ABLE TO OBTAIN 7.5 PERCENT NOTES FOR ITS LATEST CONTRACT.

4. A MORE DISQUIETING NOTE WAS STRUCK BY ACME-CLEVELAND PRESIDENT ROBERT SATTLER, WHO INFORMED COMMERCIAL ATTACHE APRIL 9 THAT STANKOIMPORT WAS THREE MONTHS OVERDUE IN PAYMENTS ON CONTRACT WITH ACME-CLEVELANDS LASALLE DIVISION AND THAT ARREARAGE AMOUNTED TO ALMOST 4 MILLION DOLLARS. IN ORDER TO AVOID PAYING AMOUNT DUE TO COMPANY, STANKOIMPORT HAD EMPLOYED VARIET OF RUSES
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INCLUDING CLAIMS OF LOST INVOICES, INSUFFICIENT DOCUMENTATION ETC. COMMERCIAL OFFICE HAS ALSO LEARNED THAT STANKOIMPORT IS TECHNICALLY IN ARREARS ON ITS PAYMENTS TO GOULD INC. ON ENGINE BEARING CONTRACT. REPRESENTATIVES OF BARKLAYS, TOZER'S MOSCOW OFFICE INFORMED COMMATT APRIL 9 THAT THEY HAD LEARNED OF SEVERAL SIMILAR CASES IN WHICH SOVIET FOREIGN TRADE ORGANIZATIONS WERE OVERDUE ON PAYMENTS.

TM IN ANOTHER SURPRISING DEVELOPMENT, FIAT-ALLIS

REPRESENTATIVE INFORMED COMMATT APRIL 9 THAT HIS COMPANY HAD BEEN ASKED TO ACCEPT ONE-YEAR DEFERRED PAYMENT ON CONTRACT SIGNED IN 1975 FOR 75 TD-41 CRAWLER TRACTORS. CONTRACT PROVIDES FOR LETTER-OF-CREDIT FINANCING WITHOUT CREDIT TERMS. FIAT-ALLIS WAS ABLE TO PUT TOGETHER FINANCING PACKAGE, WHICH IS NOW BEING CONSIDERED BY TRAKTOROEXPORT AND BANK FOR FOREIGN TRADE. INTERESTINGLY, TRAKTOROEXPORT DID NOT PROPOSE THAT DELIVERIES UNDER CONTRACT BE POSTPONED BUT RATHER ASKED WHETHER DELIVERIES COULD BE ADVANCED. FIAT-ALLIS REP ALSO ADVISED THAT IN HIS NEGOTIATIONS WITH BANKS (PRIMARILY BANK OF AMERICA) ON FINANCING PACKAGE HE LEARNED

THAT SOVIETS HAD MADE SIMILAR REQUESTS FOR REVISION OF LARGE NUMBER OF CONTRACTS SIGNED DURING 1975.

6. COMMENT: WE ARE NOT STARTLED TO LEARN THAT SOVIETS ARE INSISTING ON CREDITS FOR MACHINERY SALES, AND LINE ABOUT UNAVAILABILITY OF FUNDS FOR 1976 PAYMENTS IS ALSO FAMILIAR. HOWEVER, IT IS SURPRISING

THAT MINISTRY OF FOREIGN TRADE WOULD ALLOW FOREIGN TRADE ORGANIZATIONS TO FALL BEHIND IN PAYMENTS TO WESTERN COMPANIES, GIVEN IMPORTANCE WHICH SOVIETS ATTACH TO THEIR GOOD COMMERCIAL REPUTATION. REQUEST FOR REVISION OF PAYMENT TERMS IN CONTRACTS CONCLUDED DURING 1975 IS ALSO SURPRISING, PARTICULARLY IF FIAT-ALLIS REPRESENTATIVE WAS ACCURATE IN REPORTING THAT HIS COMPANY WAS BUT ONE OF MANY INVOLVED. THE PICTURE IS ONE OF VERY TIGHT CONTROLS ON HARD-CURRENCY EXPENDITURES, PERHAPS REFLECTING BEARISH SOVIET PROJECTIONS FOR 1976 HARD-CURRENCY TRADE BALANCE.
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